

## **FILING AND PAYING TAXES ELECTRONICALLY**

The Internal Revenue Service is expanding the options for filing and paying federal taxes electronically during the 2000 filing season. Many electronic filers can enjoy a totally paperless experience, and even pay any balance due with a credit card or a direct debit from their checking or savings account.

### **E-FILE -- AN INCREASINGLY POPULAR OPTION**

Nearly 30 million Americans chose IRS e-file options last year -- a 19 percent increase over the year before. They've seen how fast, simple and secure it is to file their federal tax returns through a computer or over the telephone. Whether using a tax professional or doing it themselves, they've taken advantage of these benefits:

- **Faster refunds:** Taxpayers who e-file get their refunds in less than half the time as paper returns, even faster with Direct Deposit.
- **More accurate returns:** E-filed returns are more accurate and reduce the chance of getting an error letter from the IRS.
- **Quick electronic confirmation:** Computer e-filers receive an acknowledgment within 48 hours of filing that the IRS has accepted their returns. Callers using TeleFile receive a confirmation number while they're still on the phone, letting them know they've completed the filing of their returns.
- **No paper:** The IRS sent about 11 million postcards containing e-file customer numbers (ECNs) to taxpayers who used a computer to prepare their own returns last year, even if they filed a paper form. Using the ECN as a "signature," these taxpayers can file electronically without having to mail any paper signature documents. Also, the IRS has accepted about 18,000 tax preparers into a pilot in which they will offer their e-filing clients the option of creating a five-digit Personal Identification Number to use as their electronic signature when filing.

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- **Easy payment options:** E-filers with a balance due have more payment options. They can pay their taxes by a direct debit from their checking or savings account, or with a credit card.
- **Federal/State filing:** Many taxpayers in 35 states and the District of Columbia can e-file their federal and state tax returns in one transmission to the IRS. The IRS forwards the state data to the appropriate state tax authority. This federal-state electronic filing is available in Alabama, Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Virginia, West Virginia, Wisconsin and the District of Columbia. Indiana and Kentucky taxpayers can also e-file both their federal and state returns with a single phone call. Last year, nearly 8.5 million taxpayers e-filed their state returns with their federal returns.

### **E-FILING THROUGH AN AUTHORIZED PROVIDER**

Computer filing through an authorized provider has been the core e-filing method since its debut in 1986. Tax professionals can send clients' returns from their computers to the IRS, whether they originally prepared the returns or the clients filled out the forms and the providers entered the data into their computers.

### **E-FILING FROM HOME**

Taxpayers who have a modem and personal computer can e-file their tax returns from home any time of the day or night. To do so, a taxpayer sends the tax return file online to a transmitter. The transmitter converts the file to an IRS-approved format, and then sends the converted return file to the IRS. Within 48 hours, the IRS notifies the taxpayer through the transmitter whether or not the return is accepted. In 1999, almost 2.5 million taxpayers e-filed their returns from home.

Many tax preparation software programs and some company Web sites include an e-file option. The IRS Web site at [www.irs.gov](http://www.irs.gov) has a list of companies offering online filing software, as well as direct links to firms with low- or no-cost e-filing options.

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## **E-FILING BY PHONE**

The easiest way to file a return is to use TeleFile, the IRS file-by-phone system. Last year, 5.7 million people used TeleFile instead of filling out Form 1040EZ.

Potentially eligible TeleFile users get a special tax package from the IRS inviting them to file their taxes quickly and easily any hour of the day or night. The package contains a worksheet, instead of tax forms, that becomes the TeleFile Tax Record. Only those who get the package can use Telefile. If there are no changes to the name or address that the IRS has printed on the Tax Record and the taxpayer is otherwise eligible, he or she can just complete the worksheet, call the toll-free number and follow the step-by-step instructions.

With a touch-tone phone, TeleFilers enter interest income, any unemployment compensation and the wages, tax withheld and employer identification number from each W-2 Form. Those taking advantage of Direct Deposit for a refund also enter the required checking or savings account number. The call takes about 10 minutes. TeleFile figures the adjusted gross income, standard deduction, exemption, taxable income, tax, any earned income credit, plus any refund or tax due while the taxpayer is on the phone. A customer service number contained in the TeleFile package acts as the taxpayer's signature. A confirmation number before the call ends indicates the IRS received the return. Refunds arrive in half the time as with a paper return and any tax due can be paid as late as April 17, 2000.

## **EXPANDED E-PAYMENT OPTIONS**

The option to pay taxes by credit card -- first offered in 1999 -- expands to taxpayers choosing to make a payment with their automatic extension of time to file and to those making estimated tax payments for Tax Year 2000. When filing a balance due return, taxpayers can pay with an automatic withdrawal from a bank account simply by pre-authorizing a direct debit from their checking or savings account on a date they specify.

The IRS offers these electronic payment options through partnerships with private industry, including credit card processors and tax preparation software developers. More than 129,000 people paid their federal taxes by credit card or direct debit transactions during 1999.

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All individuals who e-file -- including those using TeleFile -- may have the balance due debited directly from their bank accounts. There is no fee for this service. Many people already use such direct debits for their mortgages, auto loans or utility bills. Last year, the IRS limited the direct debit option to computer-filed returns. Taxpayers can file early and pay later by authorizing a direct debit for April 17.

Taxpayers can make credit card payments through tax software or by phone. The IRS does not set or collect any fees for credit card payments, but the private sector partners may impose convenience fees. The tax payment to the U. S. Treasury and the convenience fee will be listed separately on the cardholder's credit card statement.

Two tax software developers offer integrated e-file and pay combinations for individuals who want to pay their balance due with a credit card.

- Intuit, which piloted this option for personal computer users last year, expands its program to people using its Web filing service and to tax preparers using its professional series software. It accepts only Discover Card for tax payments.
- Orrtax, a software provider to tax professionals, will allow charges to the same three credit cards used on the phone system to be included in the electronic returns, eliminating the need for a phone call. Tax preparers using this software will make the option known to their clients.

The IRS has authorized Official Payments Corporation (OPC) to accept credit card charges for federal taxes by phone. All individuals -- whether filing on paper or electronically -- may use this system to charge taxes to American Express, Discover Card or MasterCard accounts. A taxpayer may file a return early and wait until April to phone in a credit card charge. OPC accepts three types of payments this year:

- taxes owed on a 1999 return;
- a projected balance of 1999 taxes a taxpayer chooses to pay with a request for an automatic extension of time to file; or
- estimated tax payments for Tax Year 2000.

Taxpayers who charge a payment with an automatic extension request or who charge an estimated tax payment will not need to file the respective paper Forms 4868 or 1040-ES.

OPC accepts 1999 federal tax payments at 1-888-2PAY-TAX (1-888-272-9829), beginning January 14. The estimated tax payment option starts March 1, 2000.

The "Electronic Services" section of the IRS Web site -- [www.irs.gov](http://www.irs.gov) -- has more information about IRS e-file, paperless filing, private sector partnerships and electronic payments. Click on and see how the IRS is working to put service first.